

## Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 EURE-00 SSO-00 DRC-01 AID-20

CEA-02 CIAE-00 COME-00 EB-11 FRB-02 INR-10 IO-14

NEA-10 NSAE-00 RSC-01 OPIC-12 SPC-03 TRSE-00 CIEP-02

LAB-06 SIL-01 OMB-01 INRE-00 SCEM-02 SCI-06 INT-08

SS-20 NSC-10 AF-10 NSCE-00 L-03 /192 W

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O R 261650Z OCT 73

FM USMISSION OECD PARIS

TO SECSTATE WASHDC IMMEDIATE 935

INFO AMEMBASSY BONN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION NATO

C O N F I D E N T I A L SECTION 1 OF 2 OECD PARIS 27835

E. O. 11652: GDS

TAGS: ENRG, OECD

SUBJECT: MEETING OF HIGH-LEVEL GROUP OF OECD OIL COMMITTEE,  
OCTOBER25, 1973

DEPARTMENT PASS OIL CAPITALS AS DESIRED

1. SUMMARY. MEMBERS OF HIGH LEVEL GROUP (HLG) AGREED  
ON ORDER OF MAGNITUDE OF THREAT TO OIL SUPPLY FROM  
ARAB PRODUCTION CUTS AND EMBARGOES, AND ON THE POTEN-  
Tially SERIOUS EFFECTS ON THEIR ECONOMIES IF SITUATION  
PERSIST FOR LONGER THAN A FAIRLY BRIEF PERIOD. HLG  
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BELIEVES IT IS IMPORTANT THAT IT RECEIVE PERIODIC

JOINT REPORTS ON SUPPLY SITUATION FROM MAJOR CRUDE SUPPLY COMPANIES BUT MAJORITY OBJECTS TO FORMAL CONVO-CATION OF INTERNATIONAL INDUSTRY ADVISORY BODY (IIAB) BECAUSE OF CONCERNS OVER POSSIBLE IMPACT ON ARABS OR PUBLIC ALARM OVER SUPPLIES IN THEIR OWN COUNTRIES. HLG AGREED IN PRINCIPLE THAT MEMBER GOVERNMENTS SHOULD EXPRESS THEIR CONCERNS TO OPEC COUNTRIES OVER UNILATERAL BREACH OF TEHRAN AGREEMENT BUT TIMING, FORM, AND EMPHASIS LEFT MATTER FOR INDIVIDUAL COUNTRY JUDGMENT. END SUMMARY.

2. SUPPLY SITUATION. US DEL (ARMSTRONG) LED OFF DISCUSSION OF CURRENT OIL SUPPLY SITUATION BY PRESENTATION OUR VIEWS ON IMPACTS OF ARAB PRODUCTION CUTBACKS AND EXPORT EMBARGOES. US ESTIMATE OF TOTAL AMOUNT OF OIL AFFECTED (3.5 MILLION B/D -- LATEST FIGURES AVAILABLE FROM EXXON) WAS LOWER THAN ESTIMATES PRESENTED BY SOME OTHER DELEGATES. JAPAN QUOTED A LOSS OF 4.3 MILLION B/D; NETHERLANDS, INCLUDING EFFECT OF POTENTIAL ALL-ARAB ROTTERDAM EMBARGO (350,000 B/D), CAME UP WITH 4.5 MILLION B/D TOTAL. DIVERGENCE IN ESTIMATES WAS NOT A MATTER OF CONTENTION, HOWEVER, AND MOST AGREED WITH EVIDENCE THAT EMBARGOED OIL WOULD BE IN ADDITION TO PRODUCTION CUTBACKS, AS WAS CASE IN SAUDI ARABIA. ITALY OBSERVED THAT SOME 30 PERCENT OF ITS OIL SUPPLY WAS IN DOUBT (23 TO 24 PERCENT LOSS FROM EASTERN MED PIPELINES, MINOR LOSS OF IRAQI BASRA CRUDE, PLUS SOVIET CUT OF NORMAL DELIVERIES BY HALF). WEST GERMANY STRESSED THAT IT WAS HEAVILY DEPENDENT ON IMPORTS OF PETROLEUM PRODUCTS FROM OTHER EUROPEAN COUNTRIES (REFERENCE HERE WAS MAINLY TO ITALY AND ROTTERDAM), AND EXPRESSED HOPE THAT THESE VOLUMES WOULD CONTINUE TO BE MADE AVAILABLE. FRENCH (VAILLAUD) MERELY STATED THAT SUPPLY SITUATION MUST BE CHARACTERIZED AS MOST IMPRECISE, THOUGHT ALL MUST BE VIGILANT REGARDING THE PERIOD AHEAD.

3. IIAB. MAJOR DISCUSSION OF POSSIBLE ACTION IN RELATION TO SUPPLY SITUATION UNDERTAKEN UNDER AGENDA ITEM ON INTERNATIONAL INDUSTRY ADVISORY BODY. THIS BODY, CONFIDENTIAL

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CREATED DURING 1967 OIL EMERGENCY TO ADVISE OECD OIL COMMITTEE ON SUPPLY, DEMAND AND TRANSPORTATION, HAS BEEN ON STANDBY SINCE APRIL 1968. CHAIRMAN SUGGESTED IIAB BE REACTIVATED AND REPORT ON SUPPLY SITUATION PRIOR TO NEXT MEETING OF THE OIL COMMITTEE (SCHEDULED FOR NOVEMBER 20-21). UK SIGNALLED EUROPEAN CONCERN OVER IMPLICATIONS OF FORMAL ACTIVATION OF IIAB BY INQUIRING IF IIAB OIL COMPANY MEMBERS COULD NOT MEET

TO EXCHANGE THE REQUIRED DATA IN ABSENCE OF SUCH FORMAL REACTIVATION. US DEL INDICATED THAT THIS COULD COMPLICATE TASK OF OBTAINING SPECIFIC DEPT OF JUSTICE APPROVAL REQUIRED FOR PARTICIPATION OF AMERICAN COMPANIES IN JOINT MEETINGS BECAUSE OF US ANTITRUST LAW.

4. WHILE CHAIRMAN (WANSINK, NETHERLANDS) AND HIS COUNTRY'S DELEGATION PRESSED HARD FOR REACTIVATION OF IIAB, FRENCH, BACKED BY WEST GERMANS AND TO MORE LIMITED EXTENT BY ITALIANS, INSISTED ON INFORMAL SOLUTION TO NEED FOR SUPPLY OF INFORMATION. FRENCH, GERMAN AND EC DELEGATES EXPLAINED TO US PRIVATELY THAT IN ORDER NOT PROVOKE ARABS TO EXPAND THEIR CUT-OFFS AGAINST EUROPEANS AND FOR DOMESTIC REASONS IT WAS PREFERABLE NOT TO TAKE ACTION THAT WOULD PUBLICLY HIGHLIGHT A. JOINT EFFORTS TO MITIGATE ARAB ACTIONS AND B. THE SUPPLY SITUATION AS AN EMERGENCY.

5. FOLLOWING PROLONGED EXCHANGES, CHAIRMAN DECIDED TO PRESENT TO OIL COMMITTEE ON OCTOBER 26 PROPOSAL BY EC (SPAAK) UNDER WHICH OIL COMMITTEE WOULD AUTHORIZE CHAIRMAN TO REQUEST IIAB CHAIRMAN TO PUT BODY'S MEMBERS ON ALERT FOR POSSIBLE FUTURE CONVOCATION AND TO CALL UPON MOST IMPORTANT OECD SUPPLIER COMPANIES TO GET TOGETHER AND INFORM HIM PERIODICALLY OF SUPPLY SITUATION. US DEL RESISTED INSISTENT REQUESTS FOR AD REF AGREEMENT BUT AGREED ON RETURN TO WASHINGTON TO DETERMINE WHETHER US COMPANIES WOULD BE ALLOWED UNDER US ANTIRUST LAW TO ACCEPT RELATIVELY INFORMAL CALL TO DEVELOP REQUIRED INFORMATION AND WHETHER THESE COMPANIES WOULD PARTICIPATE.

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6. PRICES. BRITISH DEL (SPAIN), WHO WAS UNDER HMG INSTRUCTIONS TO AIR PRICE QUESTION THOROUGHLY IN HLG, LED OFF WITH EXPLANATION OF WHY HMG THINKS IT ESSENTIAL FOR CONSUMER GOVERNMENTS TO EXPRESS CONCERN TO PRODUCER GOVERNMENTS OVER THEIR UNILATERAL BREACHING OF TEHRAN PRICE AGREEMENT. HE SAID LACK OF CONSUMER GOVERNMENT REACTION COULD ENCOURAGE OPEC COUNTRIES TO TAKE FURTHER ARITRARY ACTION; WE NEED TO SIGNAL NOW TO OPEC COUNTRIES OUR STRONG INTEREST IN STABLE MARKET CONDITIONS WITH ORDERLY MACHINERY FOR SETTING PRICES AND BETTER GUARANTEES OF SUPPLY. THIS COULD BE DONE, HE SAID, WITHOUT USURPING CONTINUING AND LEGITIMATE ROLE OF OIL COMPANIES, WITHOUT AURA OF CONFRONTATION, AND IN CONTEXT OF PROMOTING CLOSER OVERALL RELATIONS BETWEEN PRODUCERS AND CONSUMERS.

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7. DISCUSSION OF UK PRESENTATION LED TO CONSENSUS THAT IT WOULD BE USEFUL FOR CONSUMER GOVERNMENTS TO MAKE THEIR CONCERNS KNOWN TO THE PRODUCERS IN A FORM AND AT A TIME WHICH WOULD BE SUBJECT OF INDIVIDUAL DECISIONS OR BILATERAL DISCUSSIONS. IN REACHING THIS CONSENSUS, MEMBERS OF HLG EXPRESSED VARYING DEGREES OF ENTHUSIASM AS WELL AS DIFFERENT EMPHASES ON TIMING, PRIORITIES, ETC. US ACKNOWLEDGED FORCE OF UK ARGUMENTS, BUT STATED THAT ACTIONS BY GOVERNMENTS ON THE PRICE QUESTION MUST TAKE FULLY INTO ACCOUNT CURRENT DIPLOMATIC NEGOTIATIONS REGARDING SETTLEMENT IN THE MIDDLE EAST. GERMANY STRESSED ITS CURRENT CONCERN

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WAS MUCH MORE WITH AVAILABILITY OF SUPPLY AND THAT PRICE QUESTION COULD BE TAKEN UP WHEN SITUATION CALMED DOWN. (IN PRIVATE CONVERSATION LANTZKE ACKNOWLEDGED THAT HIS COUNTRY'S STRONG CURRENCY AND FAVORABLE TRADE BALANCE LED TO MORE RELAXED VIEW THAN HMG'S OF 70 PERCENT RISE IN PERSIAN GULF POSTINGS.)

8. JAPAN AND ITALY STRESSED IMPORTANCE OF GOVERNMENT APPROACHES DIRECTED TOWARD IMPROVING AND BROADENING RELATIONSHIP BETWEEN PRODUCERS AND CONSUMERS. DUTCH WERE STRONGEST AND MOST UNEQUIVOCAL SUPPORTERS OF UK POSITION, ADDING SUGGESTION THAT GOVERNMENTS SHOULD TAKE MEASURES TO ENSURE THAT COMPANIES DON'T ACCEPT PRODUCERS DEMANDS TOO READILY, A FAILING THEY THOUGHT PARTICULARLY CHARACTERISTIC OF SMALLER COMPANIES.

9. MORE GENERALLY, PARTICULAR CONCERN EXPRESSED OVER INFLATIONARY POTENTIAL AND UNCERTAINTY INHERENT IN PROPOSED TYING OF POSTED PRICES TO SO-CALLED MARKET PRICES. SEVERAL DELEGATES FOLLOWED US IN CALLING ATTENTION TO IMPACT OF OIL PRICE RISES ON LDC'S. SOME DELS, INCLUDING US, NOTED THAT ALTERNATIVE SOURCES OF ENERGY RAPIDLY BECOMING MORE ECONOMICALLY FEASIBLE AS OIL PRICES CONTINUE TO RISE.

10. OIL SHARING. CHAIRMAN INFORMAL WORKING GROUP ON SHARING (VAN RHIJN, NETHERLANDS) GAVE BRIEF ORAL REPORT ON PROGRESS SO FAR IN DEFINING AND NARROWING THE ISSUES ON THE OECD-WIDE APPORTIONMENT OF OIL IN AN EMERGENCY. FINAL MEETING OF GROUP SCHEDULED FOR NOVEMBER 15-16. AGREEMENT HAS BEEN REACHED ON A NUMBER OF ELEMENTS, BUT BASIS FOR APPORTIONMENT AND TRIGGER MECHANISM STILL UNRESOLVED. CHAIRMAN STRESSED THAT ONE APPROACH TO SHARING MIGHT BE TO COMBINE IMPORT SHARING, CONSUMPTION SHARING AND ESSENTIAL NEEDS. VAN RHIJN WILL PRESENT PROGRESS REPORT AT NEXT MEETING HLG (NOVEMBER 9) BUT NOTED THAT FULL DISCUSSION OF SHARING WOULD NOT BE POSSIBLE AT THAT TIME, AS MEMBERS WOULD NOT HAVE HAD OPPORTUNITY TO REVIEW DRAFT REPORT IN ADVANCE.

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11. COMMENTS AND CONCLUSIONS:

A. WE THOUGHT EUROPEANS WOULD HAVE WANTED TO ACTIVATE IIAB SINCE IT A KEY ELEMENT IN THEIR EMERGENCY SHARING SCHEME. HOWEVER, ARABS' EFFORT TO DIVIDE BY SELECTIVE TREATMENT OF CUSTOMERS IS EVEN MORE EFFECTIVE THAN IN 1967, WHEN IT SLOWED DOWN ACTION BY THE EUROPEANS. THIS TIME THE SELECTIVITY IS MORE SOPHISTICATED WITH PREFERRED AND NON-PREFERRED CATEGORIES AND THERE IS A TIGHTSELLER'S MARKET WITH VIRTUALLY NO NON-ARAB SPARE CAPACITY.

B. INTR-EUROPEAN CONTACT BEFORE MEETINGS WAS EVIDENT, BUT IT DID NOT PRODUCE EASY CONSENSUS. UK AND FRANCE ARE THE KEY EUROPEANS ON THE IIAB ISSUE. BOTH ARE PROTECTING PREFERRED SUPPLY STATUS AT MOMENT. UK SIGNALLED RELUCTANCE FORMALLY TO CONVOKE IIAB, FRENCH CARRIED BALL, AND EC PROVIDED COMPROMISE.

C. RELATIVELY NARROW VIEW OF NATIONAL SELF-INTEREST NOT SURPRISINGLY STILL THE DRIVING FORCE FOR DECISIONS INVOLVING ENERGY POLICY IN EUROPE. BUT THIS DOES NOT MEAN THAT WE SHOULD GIVE UP ON OECD OIL COMMITTEE MECHANISMS. THEY ARE USEFUL IN REFLECTING THE POSSIBILITIES FOR GROUP ACTION AMONG THE DEVELOPED NATIONS.  
BROWN

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## Message Attributes

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